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SOURCE Deutsche Finanzwirtschaft, No 1, 1950NEW SYSTEM FOR TAXING PROFESSIONAL WORKERS

Until 1948, members of professional groups, including doctors, scientists, engineers, artists, writers, etc., were subject to the same tax regulations as businessmen. As of 1 December 1948, the date of the tax-reform law, the income-tax regulations as they apply to members of the above groups have been put on a different basis. For members of the medical profession, engineers, inventors, composers, writers, musicians, architects, etc., the old regulation, according to which their tax was computed on the basis of their clear profits, no longer apply. However, in the case of those professions which are much more closely integrated into the economic life, such as lawyers, industrial chemists, surveyors, economists, public accountants, patent attorneys, etc., the old regulations still apply, except that the tax rates have been decreased in the same manner as for businessmen.

The artistic and scientific professions are governed by the following tax regulations:

They are subject to the taxation of income-tax group C, i.e., the same as salaried employees.

The computation of profits is on the basis of flat rates. For an annual income up to 20,000 Deutsche marks, 40 percent may be deducted as overhead, without any accounting for the expenses required, while the deduction on incomes between 20,000 and 60,000 Deutsche marks is 30 percent and on those above 60,000 Deutsche marks, 20 percent. This practically eliminates all necessity for accounting. For example, an income of 20,000 Deutsche marks is taxable as follows: 20,000 less 40 percent, (8,000) equals 12,000 Deutsche marks. If the income is 35,000 Deutsche marks, 22,500 Deutsche marks are taxable, i.e., 35,000 less 40 percent of 20,000 Deutsche marks plus 30 percent of 15,000 Deutsche marks. A great number of persons affected by this regulation seem to think that their tax is based on their entire income, and fail to take advantage of these deductions.

The conditions under which members of the professions are entitled to these tax deductions are the following: The profession must be their sole or main source of income, and must be carried on personally. If the person employs two

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or more professional assistants -- which would hardly happen in the case of an artist -- throughout the year, he is taxed not as a member of a free profession but as belonging to income-tax category A, businessmen.

If the person has income in addition to that derived from his profession, such as income from business enterprises, rented or leased property, agriculture, or capital investments, his entire income is taxable according to the rates prescribed in category A. An exception is made in case the person lives in his own one-family house, so that the rent which he would otherwise have to pay constitutes a theoretical source of income. Article 9 of the tax law states that the profits derived by members of the professions from ownership of their own houses are to remain tax-free; and further, that the rates, according to category C, will still apply, provided the added income derived from renting or leasing of property does not exceed 10 percent of the total income derived from the profession. This applies especially to those cases in which a member of a profession owns a house or urban real estate of small size in which he has been forced to take tenants according to the housing laws.

It has been shown that professions frequently do not provide an adequate livelihood, so that most artists and scientists are, according to their chief profession, salaried employees. This applies to university teachers who are active in the writing profession, newspaper editors, physicians employed in hospitals, inventors, architects, engineers, etc., who hold salaried positions. The above regulations will not apply in their case. Any scientific or artistic secondary activity by such persons is taxable at the rate of 15 percent, provided the income derived therefrom does not exceed 50 percent of the income derived from his salaried position. Should it exceed this percentage, it is to be added to the income derived from the salary, and the total becomes taxable according to Category C. The 15-percent tax rate does not apply to the gross profits but to profits minus 40 percent overhead, i.e., an actual rate of 9 percent.

Tax deductions from income derived from professions have been ordered, according to the tax-reform law of 12 August 1949, since the quarterly and yearly tax returns do not seem practical for professions with their special conditions. From incomes derived from writing, medical practice, or profit from royalties, etc., a 9-percent withholding tax is deducted, payable by the person paying the fee, so that the professional will receive only 91 percent of his fee, plus a tax receipt for the 9 percent deducted. If his profession is his secondary source of income, he has thus paid his taxes on this income in full.

If his profession is his main source of income, he must still file yearly and quarterly income-tax returns. The withholding tax is then deducted from his annual income tax. This method serves to simplify the payment of taxes, since members of the free professions, because of the irregularity of their income, were often not able to pay their taxes when they became due. This problem is eliminated by the new method, since the payments -- if the profession is the secondary source of income -- are not made directly by the professional; and if the profession is the main source of income, the withholding plan will reduce the income-tax payment to a small amount.

Under this system overpayment is possible. The law, however, provides for refunds if a person has other theoretical sources of income which in reality operate at a loss, or if the number of his dependents places him in a lower income-tax bracket, etc.

It is interesting to note that this reform, which should be of great benefit to the circles affected by it, has found very little acclaim there. One of the reasons seems to be that many persons affected by this tax ruling are not sufficiently familiar with the provisions of the law. However, the publishers, newspaper offices, etc., which are supposed to pay the withholding taxes have done so only to a small extent. The financial authorities will attempt, in the near future, to familiarize the persons concerned with the provisions of the law and will try to enforce them.

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